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DEPT FOR NEA/ARP, EEB/ESC/ESP/ISA

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TAGS: [PREL](#) [ECON](#) [EPET](#) [IR](#) [MU](#)

SUBJECT: DRAFT MOU ON GAS PRODUCTION WEIGHTED TOWARD IRAN

REF: A. MUSCAT 652

[B](#). MUSCAT 559

[C](#). MUSCAT 494

Classified By: Ambassador Gary A. Grappo, reasons 1.4 (b, d)

[1](#). (S) Embassy has obtained a draft working copy (used by an Iranian delegation visiting Muscat) of the May 14, 2007, Memorandum of Understanding (MoU) between the National Iranian Oil Company (NIOC) and the Oman Oil Company (OOC), which outlines the scope of bilateral cooperation on natural gas. The draft MoU, citing Oman's need for one billion cubic feet per day of natural gas from Iran, calls for the creation of a gas sales and purchase agreement to stipulate the price for Iranian gas. According to the text, however, the sale would depend on the Sultanate's investment in Iranian "upstream and downstream gas and oil projects," including those to refine oil and process natural gas.

[2](#). (S) In addition, the draft MoU notes that Oman would allocate two million metric tons per year in excess capacity at its Oman LNG plant to process Iranian gas for export. Regarding the Hinjam/Bukha field straddling the border in the Strait of Hormuz, the document states that both sides would jointly develop the field according to their respective shares. (Note: The MoU indicated that Iran had an 80% share). To this end, both parties would exchange data on the field and appoint a joint operator to manage development/exploration activities.

[3](#). (S) The draft MoU establishes a joint working committee to implement the respective commitments of the parties. The document also asks the parties to consider forming a joint venture company to procure investment for the development of the Hinjam/Bukha field, attract additional investment for other gas and oil fields in Iran, and locate other markets for the sale of Iranian LNG.

[4](#). (S) Comment: The details of this lopsided draft MoU show that significant buy-in from Oman would be required to obtain Iranian gas. As reported in refs A-C, while the Sultanate is desperate to secure new flows of gas to fuel its ambitious industrial investment projects in Sohar and Salalah, it is highly unlikely that Oman would agree to the terms of the document obtained by post. Furthermore, it remains to be seen whether the two sides can actually agree on the fundamental issue of price. For a bilateral commercial relationship that has had little depth in the past, the price may never be right. End Comment.  
GRAPPO